MicroCapital Monitor
THE MICROFINANCE NEWSPAPER

FREE PREVIEW EDITION*

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MICROCAPITAL BRIEFS | TOP STORIES

IFC, Europe Launch Global Index Insurance Facility

The International Finance Corporation, the European Commission and the Netherlands' Ministry of Foreign Affairs recently announced the launch of the Global Index Insurance Facility, a reinsurance vehicle created in 2006 to mitigate risks in developing countries through index-based insurance, which pays a set level of compensation in the event of a natural disaster that exceeds a measurable level such as a drought that has lasted for a certain number of days or an earthquake that exceeds a certain magnitude. The facility, which will be managed by IFC, has raised USD 36 million to date, all from the European Commission. December 4. 2009

Financiera Independencia of Mexico to Acquire Financiera Finsol

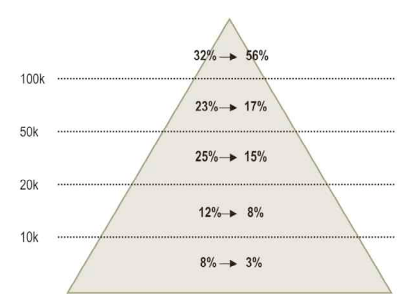
Financiera Independencia, a microfinance institution (MFI) traded on the Mexican Stock Exchange, has signed an agreement worth the equivalent of USD 41 million to acquire all of the outstanding shares of Finsol, a Mexican MFI. The agreement also includes the acquisition of three related entities: Financiera Popular Finsol, a savings and loan entity; Finsol Vida, an insurance broker; and Instituto Finsol Brazil, an MFI in Brazil. To finance the deal, Financiera Independencia plans to raise USD 23.2 million by issuing 85 million shares. The combined companies will serve 1.4 million clients with an outstanding loan portfolio of USD 432.7 million. December 1. 2009

Citi Syndicates $21.7m Agricultural Loan for BURO Bangladesh

Global bank Citi recently syndicated a five-year local-currency agricultural loan equivalent to USD 21.7 million from 13 banks to microfinance institution BURO Bangladesh. BURO reports a loan portfolio of USD 46 million and 496,000 borrowers. December 8. 2009

INSIDE Page

THE PHILIPPINES
MFI MARKET SHARE TRENDING 2006 TO 2008
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

CGAP MICROFINANCE DEALBOOK

POWERED BY MicroCapital

TOP NOVEMBER 2009 MICROFINANCE TRANSACTIONS

The CGAP Microfinance Dealbook publicizes microfinance capital market transactions in an effort to bring greater transparency to the industry. Additional deals are published periodically at http://www.microcapital.org/cgap-microfinance-dealbook. Parties to microfinance transactions are also encouraged to submit their deals via this website.

Investor	Investee	Region	Amount (USD)	Type
AFD (French Development Agency)	People's Credit Fund	EAP	45,000,000	Debt
Financiera Independencia	Financiera Finsol (100% shareholder buyout)	LAC	~41,900,000	Equity
Eight development finance institutions & commercial banks	Garanti Bank	ECA	31,220,000	Debt
Citi & twelve other banks	BURO	SA	~21,700,000	Debt
European Bank for Reconstruction and Development	Garanti Bank	ECA	20,790,000	Debt
Various (Unspecified)	FINCA Microfinance Fund BV	WW	16,800,000	Equity
Access Bank Plc (Nigeria) and Nigeria's Anambra state government	Unspecified Local Banks	SSA	~16,500,000	Debt
African Development Fund (African Development Bank)	Microfinance Support Centre	SSA	~16,230,000	Debt
European Bank for Reconstruction and Development	Bank Vozrozhdenie	ECA	16,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	ProCredit Holding	WW	~14,980,000	Debt
European Investment Bank	Lok Microfinance	ECA	14,900,000	Debt
European Fund for Southeast Europe	NLB Tutunska banka AD Skopje	ECA	11,913,626	Debt
ICICI Prudential Asset Management, Axis Bank, Dhanalakshmi Bank & IFMR Capital	Equitas Micro Finance India Private Limited	SA	~10,400,000	Equity
International Finance Corporation	AU Financiers Private Limited	SA	~7,520,000	Equity
Bond Issue	Banco Solidario	LAC	~7,120,000	Debt
International Finance Corporation, BlueOrchard Private Equity Fund, Triodos Bank Group, European Bank for Reconstruction and Development & EIT Capital Management LLC	TenGer Financial Group LLC	ECA	~5,300,000	Equity
responsAbility Global Microfinance Fund	WWB Popayan	LAC	~4,947,197	Debt
Government of Mozambique	Various Retail Credit Providers	SSA	3,500,000	Debt
Oikocredit	CREAR	LAC	~3,142,189	Debt
World Bank	Bank of Tanzania	SSA	3,000,000	Debt
responsAbility Global Microfinance Fund	LOMC	SA	3,000,000	Debt
ASN-Novib Fund (Triple Jump)	FINCA Microfinance Fund BV	WW	3,000,000	Equity
Microfinance Enhancement Facility (BlueOrchard Finance)	Confianza	LAC	~2,500,000	Debt
Lagos State Microfinance Institution	Various Retail Credit Providers	SSA	~2,300,000	Debt
Oikocredit	Satin Creditcare	SA	~2,155,573	Debt
Vision Microfinance Fund (Absolute Portfolio Management)	LOMC	SA	2,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	LAPO	SSA	2,000,000	Debt
Dexia Micro-Credit Fund (BlueOrchard Finance)	VisionFund Cambodia	EAP	2,000,000	Debt
Oikocredit	FUBODE	LAC	2,000,000	Debt
Oikocredit	FONDECO	LAC	2,000,000	Debt
ASN-Novib Fund (Triple Jump)	Banco Procredit SA	LAC	2,000,000	Debt

Regions: *EAP - East Asia and Pacific, ECA - Europe and Central Asia, LAC - Latin America and Caribbean, MENA - Middle East and North Africa, SA - South Asia, SSA - Sub-Saharan Africa, * - Investee location may not indicate the final destination of the funding because investee is an intermediary*

Amounts: *Deals denominated in local currency are indicated by a tilde (~); a double asterisk (**) indicates that the transaction included funding of non-microfinance services and the amount shown is an estimate of the allocation specifically to microfinance*

EDITORIAL

Field Notes: In Nicaragua, the Writing Was on the Wall

Having just returned from Nicaragua, I can't help but feel that the responsibility for the problems in Nicaragua's microfinance industry should be shared.

At the Inter-American Development Bank's annual FOROMIC in El Salvador in 2007, I watched managers of microfinance investment vehicles (MIVs) competing to get face time with the heads of Nicaraguan microfinance institutions (MFIs). I naively wondered why there was interest in so many MFIs in this one country of 5 million people, 600,000 informal sector workers and 300,000 credit clients. Today, the slowdown in the international and domestic economies are wreaking havoc on this small country and, as a result, on its microfinance sector. Many are blaming the government-supported "no payment" movement earlier this year. However, this movement was an outcome rather than rationale for the problems of the microfinance sector. Banex, which has historically been flooded with funds from most of the MIVs, has buckled under the strain of high delinquencies (29 percent according to the Superintendency), stricter provisioning and a saturated credit market. Just this month, international shareholders recapitalized the bank with a USD 14 million infusion. Problems in the agricultural sector are widespread. The price of calves, for example, has fallen by over 70 percent. The 30-day portfolio-at-risk ratio of a few agricultural MFIs is around 25 percent. MFI consumer lending has halted. Microenterprises are not earning enough to cover consumption loan payments. Women clients of one MFI told us that they have been dipping into savings for the past two years just to get by. Not surprisingly, traditional retail chains that offer consumer loans have delinquencies of over 40 percent.

Of course, each crisis brings opportunities. MFIs are getting back to basics: enterprise lending. Some MFIs will end up as winners in the shakeout. The main losers are the clients. Many folks will be hard pressed to access credit since their records are tainted at the credit bureaus. One MFI mentioned they have seen borrowers sending their grown children with clean credit records to MFIs to borrow in their stead. Serious governance issues in a few MFIs have condemned these to uncertain paths. The government and its subsidized Tier I and II lending plans are adding to this mess by funding institutions with questionable governance and credit practices.

MIVs, many funded by multilateral and bilateral donors, are pulling back due to "country risk." Was market saturation, weak MFI governance, political instability and low prospects for economic growth not priced into Nicaraguan investments? Or were MIVs and donor agencies too busy trying to place their money to bother to kick the tires? Investors beware.

I am not advocating a bailout in Nicaragua, but it seems to me that investors who contributed to the rapid lending growth of 2004 to 2007 did so with the intention of "doing good". They should now step up, help strengthen governance, capacity and technology, and stop whining about country risk. The writing was on the wall.

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PAPER WRAP-UPS

IFC Reports on Its Activities: Access to Finance (A2F) Highlights Report 2009

Published the International Financial Corporation, October 2009, 40 pages, available at: http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/A2F-HighlightsReport2009/$FILE/A2F-HighlightsReport2009.pdf

This report covers the efforts of the International Financial Corporation (IFC) to expand and improve financial access. IFC has attempted to build and strengthen financial institutions through 60 advisory projects in SME banking worth USD 90 million. In terms of microfinance, IFC's portfolio includes USD 1.3 billion investments in 140 microfinance institutions (MFIs). The IFC has also spent USD 70 million on advisory services for 45 percent of the MFIs in which it has invested.

It has aimed to improve housing finance through advisory services to "middle-tier mortgage finance institutions" in Mexico and Albania. Advisory services have also been extended in insurance through... *(Continued in the subscriber edition)*

Banks and Microbanks

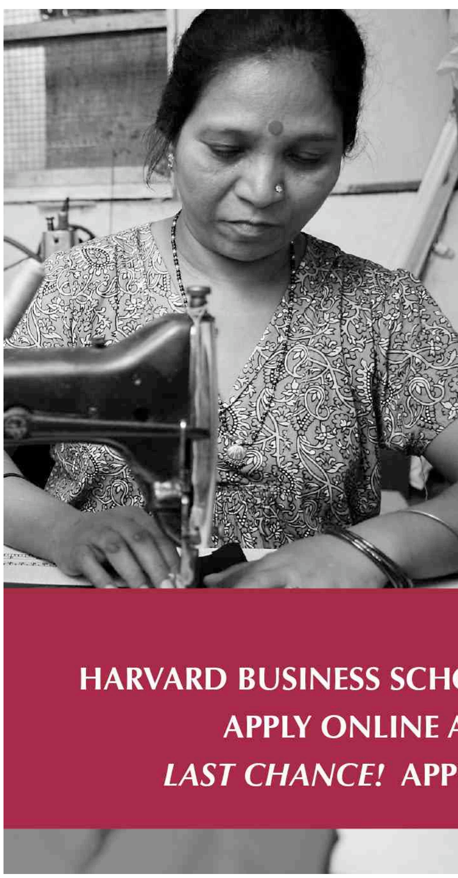
By Robert Cull, Asli Demirgüç-Kunt & Jonathan Morduch, published by the Financial Access Initiative, September 2009, 54 pages, available at: http://financialaccess.org/node/2314

This paper is intended to determine whether the proximity of banks affects the profitability and outreach of microfinance institutions (MFIs) in 38 developing countries. In other words, does competition from larger banks cause MFIs to lose some of their more "profitable" customers, resulting in a smaller average loan size and depressed profits? A smaller average loan size, as well as an increase in women customers, would be indicators of a greater depth of outreach in terms of "poor and excluded groups," according to the authors. Bank penetration is measured in both "branches per capita" and "branches per square kilometer." Data from 328 MFIs was used for this study.

The main results are as follows: An increase in bank penetration, when measured by branches per capita, is associated with a decrease in loan size for MFIs. There was no significant result for branches per square kilometer. Conversely, bank penetration, when measured by branches per square kilometer, is significantly correlated with an increase in the share of women borrowers for MFIs, with no significant result for the "branches per capita" measure. As stated, the authors consider both of these results to be evidence that competition from banks causes MFIs to have greater outreach to the niche markets of poor and excluded borrowers.

In terms of profitability, increased bank penetration (by both measures) is weakly correlated with return on assets for MFIs and is not significantly correlated with a "financial self-sufficiency index" that indicates the extent to which revenues cover costs. This does not provide particularly strong evidence for the hypothesis that competition decreases MFI profits.

Certain other factors also had important results. For example, MFIs that employ group lending models in which there is joint liability among clients have smaller loans and a higher share of women clients to start. Therefore, they are less likely to be affected by bank penetration (by either measure) in terms of profitability and outreach as compared to those MFIs that employ bilateral lending contracts..... *(Continued in the subscriber edition)*



Microfinance Tradeoffs: Regulation, Competition and Financing

By Robert Cull, Asli Demirgüç-Kunt & Jonathan Morduch, published by the Financial Access Initiative, September 2009, 24 pages, available at: http://financialaccess.org/sites/default/files/FAI_Microfinance_Tradeoffs.pdf

Using evidence from global surveys on microfinance institutions (MFIs), the authors examine the tradeoffs between "meeting social goals and maximizing financial performance." The authors mainly use 2005 data from the Microfinance Information Exchange's *MicroBanking Bulletin*.

This study covers the broad topics of contracts, commercialization, regulation and competition. The authors started with a dataset on 124 MFIs in 49 countries and, after incorporating "additional observations, data, and variables," the authors increased their sample to as large as 346 MFIs in 67 countries.

Contracts:

The authors find that "financially self-sustainable individual lenders tend to lend to both relatively poorer clients and more women." This supports the idea that MFIs are achieving "depth of outreach." Additionally, the data shows that loan repayment rates generally decrease as interest rates increase, except in the case of group lenders and village banks, thus displaying the effectiveness of group loans in providing an alternative form of collateral. Furthermore, serving a poorer clientele is correlated with higher average costs, but proportionally higher interest rates prevent these costs from lessening profits. Lastly, larger and older institutions are less likely to achieve simultaneous profitability and deep outreach.

Commercialization:

Of the MFIs under consideration from the *MicroBanking Bulletin*, 45 percent are non-governmental organizations (NGOs), accounting for 51 percent of borrowers. Sixty-one percent of subsidies go to these NGOs. Over half of the MFIs in the sample are profitable, though commercial MFIs are more likely to be profitable than NGOs. Additionally, commercial MFIs have loan sizes that are four times larger that NGOs, and NGOs charge interest rates that are two times those charged by commercial MFIs. However, both commercial and NGO MFIs generally have high repayment rates; the median 30-day portfolio at risk ratio is below 4 percent. *(Continued in the subscriber edition)*

Insurance in Developing Countries: Exploring Opportunities in Microinsurance

Published by Lloyd's 360 Risk Insight and the MicroInsurance Centre, November 2009, 38 pages, available at: http://lloyds.com/NR/rdonlyres/5CFE7CAF-0075-415C-B0F2-BEBF0323059E/0/Microinsurancereport_Nov2009.pdf

This report describes the current landscape of microinsurance and lays out the means and benefits of entering this emerging market.

According to the report, the market for microinsurance in developing countries is estimated to be between 1.5 and 3 billion people for products ranging from health and life, to agricultural and property, to catastrophe insurance. Currently, microinsurance covers only about 5 percent of the potential market, or 135 million people.

While the report primarily focuses on commercial insurers that provide for-profit microinsurance products, it also covers reinsurers, non-governmental organizations, post offices and microfinance institutions (MFIs). Commercial insurers remain the largest suppliers of microinsurance, covering over 50 million individuals. *(Continued in the subscriber edition)*